FY 2012 BUDGET PROCESS

OVERVIEW:

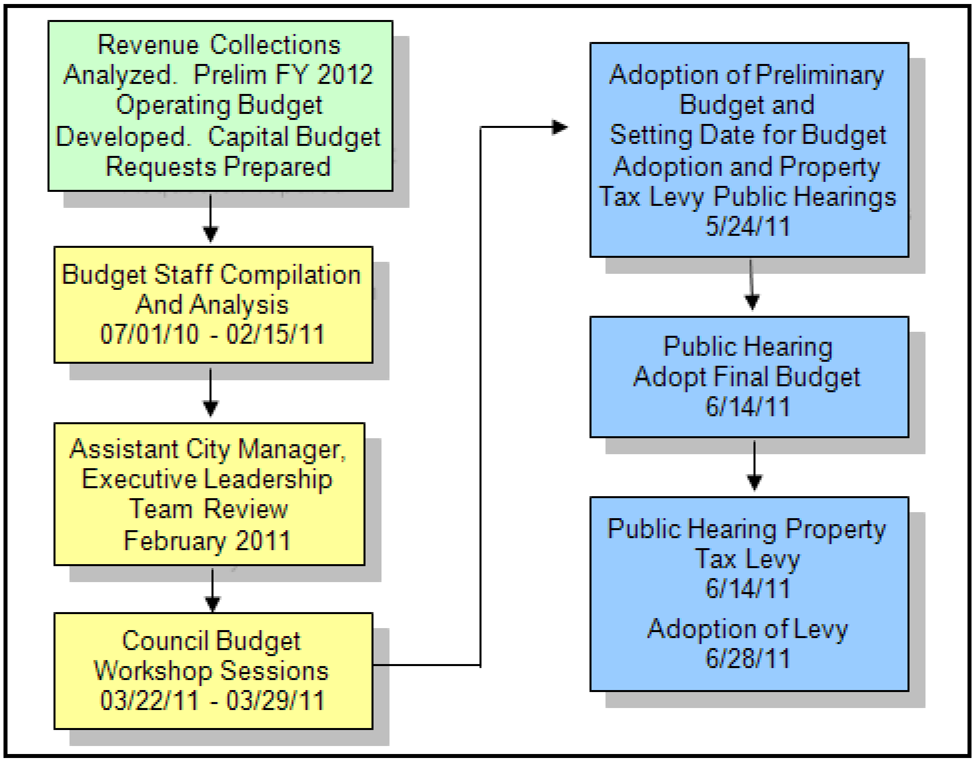
The FY 2012 operating and capital budgets are based on council's continued vision of 'one community' and the supporting strategic goals that Council reaffirmed at a December 2009 retreat:

- One community that is fiscally sound,
- One community with strong neighborhoods,
- One community committed to public safety,
- One community with quality economic development,
- One community with a vibrant city center,
- One community with an active partnership with Luke Air Force Base, and
- One community with high quality services for citizens.

Two principal issues for the FY 2012 budget were the ongoing challenges of the economy and the Coyotes National Hockey League team as the main tenant of the city-owned Jobing.com Arena. Both are discussed in detail in the *City Manager's Message* in this document.

Over the course of several months various balancing options for both the FY 2012 operating budget and the FY 2012-2021 capital improvement plan were evaluated. A final balancing plan was established in February 2011 and resulted in the recommended budget presented to City Council at a series of budget workshops held in March 2011. For more information please see the *City Manager's Message* in this document

At the conclusion of these budget workshops, the proposed budget was presented to Council for tentative adoption and then, two weeks later, for final adoption. The budget was transmitted to the general public in the form of public hearing notices. These notices included summary budget information, including the date for the public hearing on the property tax levy, as required by Arizona state law. After completing the public hearing for the final FY 2012 budget, the Council adopted it and thereby set the expenditure limitation for FY 2012. A separate public hearing on the FY 2012 property tax levy was conducted at the same meeting as the final budget adoption. Adoption of the property tax levy occurred two weeks later. The chart below illustrates the broad outline of the FY 2012 budget development process.



VARIATIONS IN BUDGETING METHODS:

The budgets of general government type funds, such as the General Fund, Public Safety Special Revenue Fund, Streets Fund and Transportation Fund are prepared on a modified accrual basis. This means that unpaid financial obligations, such as outstanding purchase orders, are immediately reflected as encumbrances when the cost is estimated, although the items may not have been received yet. However, in most cases revenue is recognized only after it is measurable and actually available. Beginning with FY 1996, sales tax revenues were recorded in the period in which they were due to the city. This changed in FY 2008 and sales tax revenue is now recorded to the month it is collected.

Enterprise funds (Water/Sewer, Landfill, Sanitation and Community Housing Services) are prepared using the full accrual method. Enterprise funds also recognize expenditures as encumbered when a commitment is made (e.g., through a purchase order). Revenues, on the other hand, are recognized when they are obligated to the city (for example, water user fees are recognized as revenue when service is provided).

Purchase orders for goods and services received prior to the end of the current fiscal year will be eligible for payment for a period of days following the close of the fiscal year. However, encumbrances for all other purchase orders will automatically lapse.

The Comprehensive Annual Financial Report (CAFR) presents the status of the city's finances on the basis of Generally Accepted Accounting Principles (GAAP). Since FY 2002, the CAFR has been prepared in compliance with Governmental Accounting Standards Board (GASB) Statement No. 34 requirements. The CAFR shows fund expenditures and revenues on both a GAAP basis and budget basis for comparison purposes. In most cases, this conforms to the way the city prepares its budget with the following exceptions:

a. Compensated absences liabilities that are expected to be liquidated with expendable available financial resources are accrued as earned by employees on a GAAP basis as opposed to being expended when paid on a budget basis.
b. Principal payments on long-term debt within the enterprise funds are applied to the outstanding liability on a GAAP basis as opposed to being expended when paid on a budget basis.
c. Capital outlays within the enterprise funds are recorded as assets on a GAAP basis and expended on a budget basis.
d. Inventory is expensed at the time it is used.
e. Depreciation expense is not budgeted as an expense.

ACCOUNTING CHANGES:

A new fund was budgeted in FY 2012 within the General Fund Group titled Camelback Ranch Event Ops (Fund 1283). This fund is used to track operational expenditures incurred at the new spring training baseball facility which is home to the Los Angeles Dodgers and Chicago White Sox. Any revenue reimbursement received for city services is recorded in the fund. A General Fund operating transfer will be made to cover all expenditures that exceed the reimbursement received. This fund will function in much the same way as the Stadium Event Operations (Fund 1281) and Arena Event Operations (Fund 1282) that were established to track financial activity at the NFL’s Arizona Cardinals and NHL’s Phoenix Coyotes venues.

The Civic Center (Fund 1740) was reclassified from the Special Revenue Fund Group in FY 2011 to the General Fund Group in FY 2012. This change was made due to the level of support received from the General Fund made via annual operating transfers of cash to cover Civic Center expenditures that exceed revenues collected. A $361,497 General Fund transfer was budgeted in FY 2011 and a $406,517 transfer has been budgeted for FY 2012. FY 2011 Civic Center budgeted revenues totaled $387,000, while the FY 2012 revenue budget is $410,300.

Another new fund was created within the Special Revenue Fund Group titled Neighborhood Stabilization Program III (Fund 1311). This fund is used to track revenues received from the federal government and any associated expenditures with the federal grant program. This new fund is very similar to the Neighborhood Stabilization Program (Fund 1310) that has been included in the city’s budget for many years.

A new fund titled P.F.C. Debt Service (Fund 1930) was created within the Debt Service Fund Group to track the principal and interest payments associated with the construction and equipment needed for the Camelback Ranch spring training baseball facility. The Public Facilities Corporation (PFC) is a non-profit corporation organized under the laws of the State of Arizona. City Council retains oversight and must approve all debt upon recommendation from the PFC Board of Directors, which consists of four City employees and one private citizen. Although the PFC is a legally separate entity from the City, the PFC is reported as if it is part of the primary government because it sole purpose is to finance and construct public facilities for the City.

Debt service for Highway User Fee Revenue (HURF) bonds will continue to be addressed as it was for FY 2010 and FY 2011. The City has outstanding HURF bonds for street projects that are backed by a pledge of the HURF monies the city receives from the state. The state reduced the amount of HURF revenue that is distributed to cities for FY 2010 and FY 2011 and further reduced for FY 2012. Therefore, a portion of HURF debt service will continue to be paid by secondary property tax revenue ($1,353,169), roadway development impact fees ($1 million) and transportation sales tax revenues ($1 million). The remaining $1,353,169 needed for the $4,706,338 debt service payment will be paid for using HURF revenues.